

## **2004 Index of Economic Freedom**

### **BACKGROUND**

The *2004 Index of Economic Freedom* (IEF) marks the 10<sup>th</sup> anniversary edition of this well-known report published by the Heritage Foundation and the Wall Street Journal. This year's report claims the IEF index has been validated, by rigorous statistical evaluations of several aspects of its measurement approach, as a tool for measuring economic freedom in the vast array of countries included in the report.

### **SUMMARY OF THE REPORT**

The *2004 Index of Economic Freedom* measures the degree of economic freedom experienced by economies worldwide in terms of such factors as their openness to international trade and investment, and provides evidence that the road to economic growth and success is through economic freedom. The report shows that countries with the most economic freedom have higher rates of long-term economic growth and are currently growing faster than those with less economic freedom.

The IEF index this year has been computed for each of 161 economies based on a list of 50 independent variables within the following 10 broad categories of economic freedom: trade policy, fiscal burden, government intervention in the economy, monetary policy, capital and FDI flows, banking and finance policy, wage and price controls, property rights, regulation policy, and information market activities. An assessment of how economically free a country's economy is requires looking at the country's performance in all ten policy categories. Low scores are more desirable since they represent a low level of government interference in the economy and hence a higher level of economic freedom. The IEF is really an index of government interference in the economy, the relative absence of which is logically taken to denote the degree of economic freedom present.

### **MAIN FINDINGS**

- Economic freedom advanced modestly on balance worldwide. Of the 155 countries for which a comparison with a previous score could be done, 75 countries scored better, 69 countries worse, and 11 countries remained unchanged. Of these 155 countries, 16 are classified as 'free', 55 are 'mostly free', 72 are 'mostly unfree,' and 12 remain 'repressed.'
- Rwanda shows the greatest improvement of any of the countries, achieving an improvement of twenty places over its previous ranking. Despite this strong improvement, Rwanda still remains in the report's "economically mostly unfree" category.
- North America and Europe are the world's most economically free regions with 7 of the top 10 freest countries, (but none of the top three economically most free is in either of these regions).
- In Latin American and the Caribbean (LAC), experiences differed but economic freedom declined as a whole for the region. Of the 26 countries surveyed, 11 improved their score while 13 experienced a decline in their economic freedom. Argentina and Venezuela show a worsening on most of their scores.
- In Sub-Saharan Africa (SSA), the net scores for the region continue to improve, with the greatest improvement being on the government intervention variable. Twenty-one countries improved their scores while 15 countries scores worsened. Botswana as measured by the index was the most economically free country in the SSA region.

- The Asia and the Pacific (A&P) region show a net decline. Only 11 countries showed improvement while 16 countries scored worse. Most A&P countries experienced greater government intervention even though fiscal burden and monetary policy generally eased. Still, the top three economically most free (Hong Kong, Singapore, and New Zealand) are in this region.
- The North Africa and the Middle East (NA&ME) region's level of economic freedom remained the roughly same or a little worse in terms of number of improvers versus number whose score worsened.

#### **HOW TO ACCESS THIS REPORT**

The full document of the *2004 Index of Economic Freedom*, and previous publications can be accessed at: [www.heritage.org/index](http://www.heritage.org/index)